

REPORT OF

ASSOCIATION EXAMINATION

OF

MUTUAL SAVINGS FIRE INSURANCE COMPANY

DECATUR, ALABAMA

AS OF

DECEMBER 31, 2000

PARTICIPATION:

SOUTHEASTERN ZONE

ALABAMA

TABLE OF CONTENTS

	<u>Page</u>
SCOPE OF EXAMINATION	2
ORGANIZATION AND HISTORY	3
MANAGEMENT AND CONTROL	4
Stockholders	4
Board of Directors	4
Officers	4
Board Committees	5
Conflict of Interest	6
CORPORATE RECORDS	6
HOLDING COMPANY AND AFFILIATE MATTERS	6
HOLDING COMPANY REGISTRATION	7
Organizational Chart	7
Management and Service Agreements	8
Consolidated Tax Allocation Agreement	10
Dividends to Stockholders	10
FIDELITY BONDS AND OTHER INSURANCE	11
Fidelity Coverage	11
Other Insurance	11
EMPLOYEE AND AGENTS WELFARE	11

SPECIAL DEPOSITS	12
FINANCIAL CONDITION/GROWTH OF THE COMPANY	12
MARKET CONDUCT ACTIVITIES	12
Plan of Operation	12
Territory	13
Policy Forms and Underwriting	13
Dividends to Policyholders	13
Advertising and Marketing	14
Claims Payment Practices	14
Policyholder Complaints	14
Compliance with Agents Licensing Requirements	14
REINSURANCE	14
Reinsurance Assumed	14
Reinsurance Ceded	15
ACCOUNTS AND RECORDS	15
NOTES TO THE FINANCIAL STATEMENTS	20
CONTINGENT LIABILITIES AND PENDING LITIGATION	21
SUBSEQUENT EVENTS	21
COMPLIANCE WITH PREVIOUS RECOMMENDATIONS	21
COMMENTS AND RECOMMENDATIONS	22
CONCLUSION	24

STATE OF ALABAMA
City of Decatur

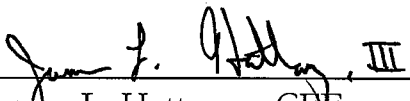
James L. Hattaway being first duly sworn, upon his oath deposes and says:

THAT he is an examiner appointed by the Commissioner of Insurance for the State of Alabama;

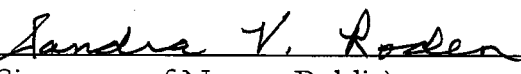
THAT an examination was made of the affairs and financial condition of **Mutual Savings Fire Insurance Company** for the period from January 1, 1997 through December 31, 2000;

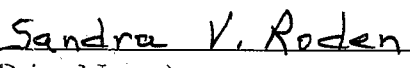
THAT the following 24 pages constitute the report to the Commissioner of Insurance of the State of Alabama; and

THAT the statements, exhibits, and data therein contained are true and correct to the best of his knowledge and belief.


James L. Hattaway, CFE
(Examiner in Charge)

Subscribed and sworn to before the undersigned authority this 12th day of April, 2002.


(Signature of Notary Public)

 Notary Public
(Print Name)
in and for the State of Alabama

My commission expires June 30, 2003



Don Siegelman
GOVERNOR

**STATE OF ALABAMA
DEPARTMENT OF INSURANCE**

201 Monroe Street, Suite 1700
Post Office Box 303351
Montgomery, Alabama 36130-3351
Telephone: (334) 269-3550
Facsimile: (334) 241-4192

D. David Parsons
Commissioner

Chief Examiner
Richard L. Ford

State Fire Marshal
John S. Robison

General Counsel
Michael A. Bownes

April 12, 2002

Honorable Diane Koken, Chairman, Examination Oversight Committee
Commissioner, Pennsylvania Insurance Department
1326 Strawberry Square
Harrisburg, Pennsylvania 17120

Secretary, Southeastern Zone
Honorable Alfred W. Gross
Commissioner, Virginia Bureau of Insurance
Post Office Box 1157
Richmond, Virginia 23218

Honorable D. David Parsons, Commissioner of Insurance
State of Alabama
Post Office Box 303350
Montgomery, AL 36130-3350

Dear Commissioners:

Pursuant to your authorizations and in compliance with the statutory requirements of the State of Alabama and the resolutions adopted by the National Association of Insurance Commissioners (NAIC), an examination has been made of the affairs and financial condition of the

MUTUAL SAVINGS FIRE INSURANCE COMPANY

at its home office located at 2801 Highway 31 South, Decatur, Alabama 35603.
The report of examination is submitted herewith.

Where the description "Company" or "MSFIC" appears herein, without qualification, it will be understood to indicate **Mutual Savings Fire Insurance Company**.

SCOPE OF EXAMINATION

The Company was last examined for the five year period ended December 31, 1996, by examiners from Alabama representing the NAIC's Southeastern Zone. The current examination covers the intervening period from the date of the last examination through December 31, 2000, and was conducted by examiners from Alabama representing the NAIC's Southeastern Zone. The examination was conducted concurrently with the examination of the Company's parent, Mutual Savings Life Insurance Company (MSLIC), Decatur, Alabama. Where deemed appropriate, transactions subsequent to 2000 were reviewed.

The examination was made in accordance with the statutory requirements of the Alabama Insurance Code and the Alabama Insurance Department's regulations and bulletins; in accordance with the applicable guidelines and procedures promulgated by the NAIC; and in accordance with generally accepted examination standards and practices in connection with the verification of assets and determination of liabilities.

The examination included an inspection of corporate records, test checks of recorded income and disbursement items for selected periods, and a general review of records and files pertaining to operations, administrative practices and compliance with statutes and regulations. Assets were verified and valued and all known liabilities were established or estimated as of December 31, 2000, as shown in the Financial Statements contained herein. However, the discussion of specific assets or liabilities contained in this report is confined to those items where a change was made by the examiners, or which indicated violation of the Alabama Insurance Code or the Insurance Department's rules and regulations, or other insurance laws or rules, or which were deemed by the examiners to require comments and/or recommendations.

An office copy of the Company's filed Annual Statement for the year 2000 was compared with or reconciled to account balances with respect to ledger items.

The market conduct phase of the examination consisted of a review of the Company's plan of operation, territory, policy forms and underwriting practices, treatment of policyholders and claimants, advertising, and compliance with agents' licensing requirements.

The Company's accounts were examined by Deloitte Touche LLP, Certified Public Accountants, for the year 2000. For the years 1999 and 1998, the Company's accounts were examined by Ernst & Young LLP, Certified Public Accountants. For the year 1997, the Company's accounts were examined by KPMG Peat Marwick LLP, Certified Public Accountants. Audit reports, management letters, certain audit confirmations and certain audit work papers were made available to the examiners. The CPA's work papers were reviewed and, when deemed appropriate, used in the completion of this examination.

A signed certificate of representation was obtained during the course of the examination. In this certificate, management attests to having valid title to all assets and to the non-existence of unrecorded liabilities as of December 31, 2000.

ORGANIZATION AND HISTORY

The Company was incorporated in Decatur, Alabama under the laws of the State of Alabama on September 16, 1971. The Certificate of Incorporation stated that the objects and purposes of the corporation were "to engage in, maintain and transact a general fire and casualty insurance business, and to do all things necessary and incidental thereto." The Certificate of Incorporation was filed and recorded in the office of the Judge of Probate of Morgan County, Alabama.

The Certificate of Incorporation provided that the total authorized capital stock shall be 1,000,000 shares of common stock with a par value of \$1.00 per share. The Company was capitalized initially with \$200,000 of paid-up capital and \$300,000 of contributed surplus. On July 15, 1975, the Company increased its paid-up capital to \$500,000 and its contributed surplus to \$500,000 through the sale of additional shares of common stock. The Company increased its common stock par value to \$3.00 per share on December 18, 1992; therefore, with 500,000 shares issued and outstanding, its paid-up capital increased to \$1,500,000, which was the amount at December 31, 2000. The Company also had \$1,517,145 in unassigned surplus as of December 31, 2000.

On December 4, 1998, Primesco, Inc. acquired 100% of the outstanding common stock of Mutual Savings Life Insurance Company, the sole stockholder of the Company. As of December 31, 2000, the Company was a

wholly owned subsidiary of Mutual Savings Life Insurance Company, which was a wholly owned subsidiary of Primesco, Inc., a Delaware corporation.

MANAGEMENT AND CONTROL

The By-laws, as amended, provide that the business and affairs of the Company shall be managed by its Board of Directors, which will consist of not less than three directors. Directors are elected at the annual meeting of the stockholder to serve until the next annual meeting and until their successors are duly elected and qualified. Officers of the Company are elected by the newly elected Board of Directors, at a meeting held immediately after the annual meeting of the stockholder.

Stockholders

The Company is a wholly owned subsidiary of its sole stockholder, Mutual Savings Life Insurance Company.

Board of Directors

<u>Director/Address</u>	<u>Principal Occupation</u>
Charles Larimore Whitaker Birmingham, Alabama	Chairman, President, CEO Mutual Savings Life Insurance Company
Walter Jones Hughes Birmingham, Alabama	Executive Vice President, COO Mutual Savings Life Insurance Company
Don Francis Morrison Decatur, Alabama	Senior Vice President Mutual Savings Life Insurance Company

Officers

The following officers were elected or reelected to their respective positions on December 12, 2000 by an Action by Written Consent of the Board of Directors:

Charles Larimore Whitaker

Walter Jones Hughes

Don Francis Morrison

Glenn Alan Lansdell

George Arthur Armour

Larry Joe Burton

Woodie Lee Melton

Bobby Jefferson Outlaw

Joseph Calvin Chapman

Robert Elerby Colburn

Kenneth O'Neal Jordan

Ronald John Koch

James Richard Lown

Joe Michael Moore

Stephen Richard O'Shea

Murry Joe Woodard

Susan Elizabeth Adams

Frankie Drinnen Graves

Judy Oakley Hagen

Deborah Marie Holmes

Bruce Homer Lea

Roger Don Schaffer

James Harlon Wallace, Jr.

David Carr Weatherford

Thomas Russell White

Sandra Vest Roden

Roger H. Moss, Jr.

Chairman of the Board,
President & CEO

Chief Operating Officer &
Executive Vice President –
Marketing

Senior Vice President –
Operations and Secretary
Senior Vice President and
General Counsel

Regional Vice President

Regional Vice President

Regional Vice President

Regional Vice President

Vice President

Vice President

Vice President

Vice President, Treasurer &
CFO

Vice President

Vice President

Vice President

Vice President

Assistant Vice President and
Assistant Treasurer

Assistant Vice President

Assistant Vice President

Assistant Vice President

Assistant Vice President

Assistant Vice President

Assistant Vice President

Assistant Vice President

Assistant Vice President

Assistant Secretary

Medical Director

Board Committees

The Company has no committees of the Board of Directors.

Conflict of Interest

The Company requires conflict of interest statements to be completed annually by all directors and officers. The purpose of the statements is to disclose any conflicts between the Company's interest and the interest of its directors and officers. A review of the statements signed during the examination period indicated that no material conflicts had been reported.

CORPORATE RECORDS

The Articles of Incorporation and By-laws and amendments thereto were inspected during the course of the examination.

The Company had one amendment to its Articles of Incorporation during the examination period. On February 26, 1998, the number of directors was amended to "not less than three directors." The amendment was properly authorized and approved by Company management.

The Company By-laws were amended and restated December 18, 1997. The amended and restated By-laws were properly authorized and approved.

The Company's Board of Directors did not approve the investment advisory agreement with two firms authorized to engage in investments on behalf of the Company. The Company is not complying with Section 27-41-5, Code of Alabama 1975, as amended, which requires that all investments be authorized, approved, or ratified by the Board of Directors and that the Board actions be recorded on a regular basis.

For all other matters, the minutes appeared to be complete and to adequately document the actions of the respective governing bodies.

HOLDING COMPANY AND AFFILIATE MATTERS

During the course of the examination, a detailed listing of the items comprising the Company's commissions was requested. The Company provided a combined listing of the Company's commissions and the commissions of Mutual Savings Life Insurance Company. The Company provided a schedule of commissions per line of business that allocated commission amounts to each Company. A detailed listing that listed each item comprising Mutual

Savings Fire Insurance Company commissions could not be reconstructed. The Company is not complying with Section 27-29-5 (4), Code of Alabama 1975, as amended, which states, "the books, accounts, and records of each party will be so maintained as to clearly and accurately disclose the precise nature and details of the transaction."

Schedule Y of the Annual Statement did not include the ultimate controlling person as required by the NAIC Annual Statement Instructions.

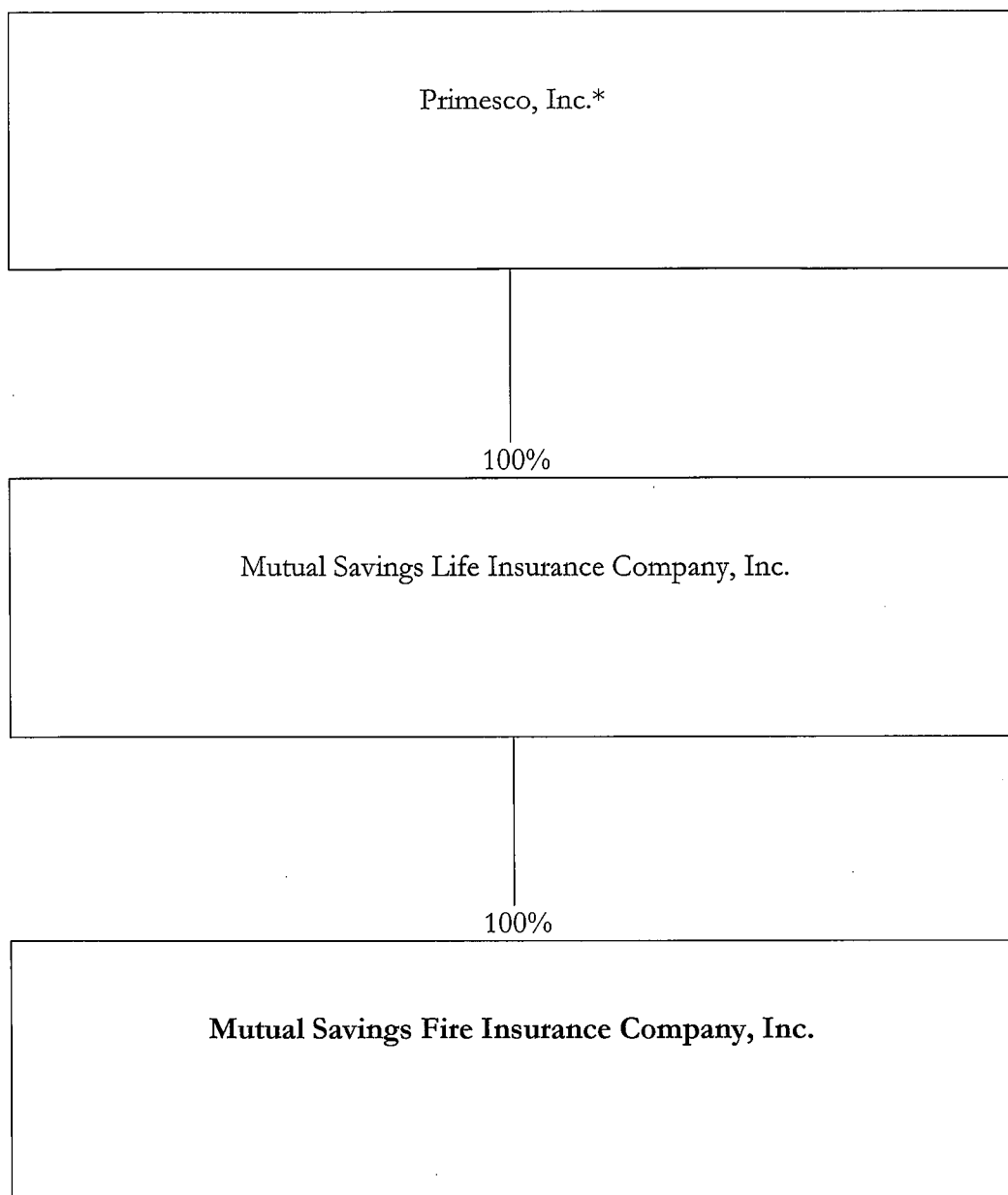
HOLDING COMPANY REGISTRATION

The Company is deemed to be subject to the Alabama Insurance Holding Company regulatory act as defined in Section 27-29-1, Code of Alabama, 1975, as amended. In connection therewith, the Company's parent, Mutual Savings Life Insurance Company is registered with the Alabama Department of Insurance on the Company's behalf, as a registrant of an insurance holding company system.

Organizational Chart

The organizational chart on the following page depicts the insurance holding company system with which the Company was affiliated as of December 31, 2000.

Primesco, Inc. owned 100% of the Company's outstanding common capital stock at December 31, 2000. J. O. Hambro Capital Management, Ltd and C. Larimore Whitaker were not identified on Schedule Y-Part 1. The failure to include these ultimate controlling person(s) conflicted with the NAIC Annual Statement Instructions. Control, according to Section 27-29-1(3), Code of Alabama 1975, as amended, "shall be presumed to exist if any person, directly or indirectly owns, controls, holds with the power to vote, or holds proxies representing five percent or more of the voting securities of any other person." At December 31, 2000, various funds and nominees of J. O. Hambro Capital Management, Ltd and C. Larimore Whitaker owned 25.68% and 13.59%, respectively, of Primesco, Inc.'s common capital stock including voting rights.



*Shareholders of Primesco, Inc. with an ownership of greater than 10% of common capital stock were: C. Larimore Whitaker with 191,622 shares, or 13.59%, and various funds and nominees of J. O. Hambro Capital Mgmt. with 362,143 shares, or 25.68%.

Management and Service Agreements

The Company provided a copy of a January 2, 1974 service agreement between Mutual Savings Life Insurance Company and Mutual Savings Fire Insurance Company. The Company was unable to provide evidence that this agreement

was approved by the Alabama Department of Insurance as required by Section 27-29-5, Code of Alabama 1975, as amended. In addition, this agreement was not disclosed in the 2000 Form B as required by Section 27-29-4, Code of Alabama 1975, as amended.

Under the terms of the agreement, MSLIC agreed to be a representative of the Company for the marketing, underwriting, and servicing of its business. All employees and licensed field personnel were provided by and were employees of MSLIC. The Company agreed to pay all expenses that could be identified as its direct expenses and for services necessary for the proper operation and administration of the Company.

Under a separate Management Services Agreement, dated October 19, 1999, between Primesco, Mutual Savings Life Insurance Company (MSLIC) and Mutual Savings Fire Insurance Company: The fees are to be calculated as discussed below and then allocated 90% to MSLIC, and 10% to the Company.

MSLIC pays the salaries of all officers and employees of the entire holding company group. In addition to the salaries, MSLIC pays a 15% "fee" to the parent company (15% of the salaries of all employees in the Holding Company). MSLIC management states, "The fee serves two functions. First while MSLIC provides all salary and benefits to its employees, it is recognized by MSLIC that it receives services from its parent, and there are duties and functions performed by persons who act as executive officers of MSLIC and Primesco, which have a value above and beyond the regular payroll. Second, the 15% fee is a more direct and simple way of recognizing the economic effect among the subsidiaries of Primesco's responsibilities for financing and investment and other specified functions of the consolidated enterprises." Management did not provide supporting evidence from cost analysis or time studies that the fees were fair and reasonable. In addition to the 15% fee, MSLIC pays a .4% fee (.4% of the fair market value of the average assets of the Company) for "advice regarding the investment portfolio and advice regarding the 401-K accounts of employees."

The contract contained a provision that the Company irrevocably agrees to pay the fees included in the agreement. Management agreed during the course of the examination to remove the irrevocable language from the contract.

The contract required that Primesco, Inc. submit invoices monthly to the Company, describing in reasonable detail the services provided, the charges

related thereto and other direct expenses to be reimbursed. Furthermore, it states that the Company must remit payment, within thirty days of receipt of the invoice, to Primesco. In addition, the agreement provided that Primesco may waive any part or all of the fees payable to it under this agreement. Primesco must make such waiver in writing. During the period covered by this examination, the Company did not receive detailed monthly invoices from Primesco. No fees (relating to this agreement) were paid by the Company during the period covered by this examination. Management did not provide written support for the waiver of the fees and the waiver was not disclosed in the Form B filings as required by Section 27-29-4, Code of Alabama 1975, as amended.

Consolidated Tax Allocation Agreement

The examiner reviewed the intercompany income tax agreement, which was in effect as of 12/31/2000. The Company maintains that the agreement is still in effect but the Company was ineligible to participate because of having a new parent company, effective December 4, 1998.

After subsequent discussions with the Company, the Company agreed to cancel the agreement. The agreement was cancelled at the November 12, 2001 Board meeting.

Dividends to Stockholders

The Company paid the following dividends during the period covered by this examination:

<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>
\$-0-	\$340,000	\$1,000,000	\$850,000

The only extraordinary dividend paid during the period covered by this examination was in 1999. This dividend was appropriately reported to and approved by the Alabama Department of Insurance.

The \$340,000 dividend in 1998 was paid without giving the Alabama Department of Insurance ten days prior notice as required by Section 27-29-5 (g)(2), Code of Alabama 1975, as amended.

FIDELITY BONDS AND OTHER INSURANCE

Fidelity Coverage

At December 31, 2000, the Company did not have a fidelity bond in force that provided coverage for protection against dishonest or fraudulent acts of officers and Mutual Savings Life Insurance Company employees acting on behalf of the Company. Based on calculations using the guidelines in the NAIC Financial Examiners' Handbook, the recommended minimum amount of fidelity insurance coverage should be between \$100,000 and \$125,000.

Other Insurance

At December 31, 2000, the Company was an additional named insured on the following policies issued to Mutual Savings Life Insurance Company:

- Commercial Property and General Liability Policy
- Commercial Automobile Policy
- Commercial Umbrella Policy
- Boiler and Machinery Policy
- Directors and Officers Liability Policy
- Fiduciary Liability Policy

The coverages and limits carried by the Company were reviewed and appeared to be reasonable.

EMPLOYEE AND AGENTS WELFARE

All personnel were employees of Mutual Savings Life Insurance Company, which provided services to the Company under the terms of the Management Agreement.

SPECIAL DEPOSITS

In compliance with statutory requirements for transacting insurance business in the respective jurisdictions, the Company maintained the following deposits with the respective statutory authorities at December 31, 2000.

<u>State</u>	<u>Par Value</u>	<u>Statement Value</u>	<u>Market Value</u>
Alabama	\$125,000	\$124,709	\$129,000
Georgia	100,000	99,691	102,125
Louisiana	<u>20,000</u>	<u>20,000</u>	<u>20,000</u>
Totals	<u>\$245,000</u>	<u>\$244,400</u>	<u>\$251,125</u>

The above deposits were confirmed with the respective custodians.

FINANCIAL CONDITION/GROWTH OF THE COMPANY

The following table sets forth the significant items indicating the growth and financial condition of the Company for the period under review.

<u>Year</u>	<u>Premiums Earned</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Capital & Surplus</u>
1996	\$4,727,461	\$4,662,766	\$1,372,038	\$3,290,728
1997	4,730,477	4,838,944	1,427,204	3,411,740
1998	4,755,099	4,784,823	1,536,181	3,248,642
1999	4,522,079	4,516,469	1,180,123	3,336,346
2000	4,318,698	4,196,261	1,179,116	3,017,145

Data for the years 1996 and 2000 are per examination. Data for the remaining years were obtained from the Company's Annual Statements.

MARKET CONDUCT ACTIVITIES

Plan of Operation

The Company's policies are sold and serviced by captive agents of the parent company, Mutual Savings Life Insurance Company (MSLIC). The Company had 379 licensed agents during the final quarter of the examination period.

At December 31, 2000, the MSLIC's sales organization consisted of an agency sales and service field force, which was responsible for the marketing and

servicing of its various lines of insurance products. The insurance products are offered to low-to-middle income households through a home service approach. The agents are assigned territories called "Agencies" where they contact customers in their homes to sell insurance and collect premiums. This method of marketing requires frequent face-to-face contact. The field force is divided into districts. Each district consists of agents, management and support personnel, all employees of the MSLIC. The district managers are under the supervision of regional vice presidents. At December 31, 2000, MSLIC employed 27 district managers, 97 sales managers and 463 agents.

The field management and agents are compensated by a service commission based on agency size and sales commissions, based on newly produced business and retention. The sales commission varies according to the type policy written.

Territory

The Company was licensed to transact business in the following states during the period covered by the examination:

Alabama
Georgia

Louisiana
Mississippi

Certificates of authority from the respective states were inspected and found to be in order.

Policy Forms and Underwriting

The Company's lines of business include fire and allied lines insurance. The Company's direct business is sold and serviced by Mutual Savings Life Insurance Company agents and managers who are licensed to write business for the Company. The Company's policy contracts currently being written are limited to \$20,000 per dwelling and \$10,000 contents coverage.

Dividends to Policyholders

No policyholder dividends were paid during the examination period. The Company had no participating policies in force.

Advertising and Marketing

The Company's advertising was limited to printed sales brochures that were distributed to Company field agents. The brochures were descriptive and were not misleading. The brochures indicated the dwelling and contents coverage for fire and allied lines coverage.

Claims Payment Practices

Samples of claims filed with the Company during the examination period, including resisted claims and claims closed without payment were reviewed. Claims sampled were reviewed with regard to compliance with policy provisions, timeliness of payment, and adequacy of documentation. No noteworthy discrepancies were noted.

Policyholder Complaints

All complaints and inquiries regarding the Company during the period under examination were selected for review from the Company's complaint register. Complaints and inquiries were found to be principally due to inquiries regarding agents of the Company, misunderstandings of policy provisions and benefits, and questions concerning claim payments. The review indicated that the Company demonstrated an effort to equitably resolve policyholder complaints in a timely manner.

Compliance with Agents Licensing Requirements

The examiners selected a sample of commission payments and compared the agents receiving commissions to the agent license renewal rosters. Based on this comparison, it appears the Company only paid commissions to properly licensed agents.

REINSURANCE

Reinsurance Assumed

The Company did not assume any reinsurance during the examination period.

Reinsurance Ceded

The examiners reviewed the two reinsurance treaties that were effective January 1, 2000 and in effect at year-end 2000. The examiners noted that Schedule F - Part 3 was not completed in accordance with the Annual Statement Instructions. Each Lloyd's Syndicate must be listed separately as to their portion of the risk. In addition, the Company listed Hart RE Company as a reinsurer when the actual reinsurer is actually Hartford Fire Insurance Company. It was also noted that the Company listed TIG Reinsurance of Connecticut as an authorized reinsurer. The Alabama Department of Insurance has no record of TIG being licensed in Alabama or an accepted reinsurer. However, it was noted that the Company was not taking a reserve credit for its reinsurance.

ACCOUNTS AND RECORDS

The Company's principal accounting records are maintained by computer with certain subsidiary records maintained manually. Other subsidiary records are maintained by Mutual Savings Life Insurance Company's data processing department, which maintains many of the record keeping functions of the Company under a management agreement. Generally, the Company's records were adequate to reflect the Company's transactions during the examination period and its financial condition as of December 31, 2000.

The Company was audited for the year 2000 by the certified public accounting firm of Deloitte & Touche, LLP. For the other three examination years, the Company was audited twice by Ernst & Young, LLP, and KPMG Peat Marwick, LLP.

The Company's reserves were certified, as of December 31, 2000, by Jan A. Lommele, FCAS, MAAA, FCA, of Deloitte & Touche, Actuarial & Insurance Consulting Group.

Any additional comments regarding the Company's accounts and records are included in this report beginning on page 20 under the caption "NOTES TO FINANCIAL STATEMENTS."

FINANCIAL STATEMENTS INDEX

	<u>Page</u>
Statement of Assets, Liabilities, Surplus and Other Funds.....	17
Summary of Operations.....	18
Reconciliation of Capital and Surplus.....	19

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART THEREOF.

MUTUAL SAVINGS FIRE INSURANCE COMPANY
Statement of Assets, Liabilities, Surplus and Other Funds
For the Period Ended December 31, 2000

	Ledger Assets	Non- ledger Assets	Non- Admitted Assets	Admitted Assets
<u>ASSETS</u>				
Bonds	\$3,718,221			\$3,718,221
Cash and short-term investments (Note 1)	177,178			177,178
Premiums and agents' balances in course of collection (Note 2)		\$212,393		212,393
Interest, dividends and real estate income due & accrued		69,647		\$69,647
Receivable from parent, subsidiaries and affiliates	18,822			18,822
Aggregate write-ins for other than invested assets	<u>268,025</u>	<u>0</u>	<u>268,025</u>	<u>0</u>
Total Assets	<u>\$4,182,246</u>	<u>\$282,040</u>	<u>\$268,025</u>	<u>\$4,196,261</u>

<u>LIABILITIES</u>				
Losses				\$ 297,893
Loss adjustment expenses				12,926
Other expenses				51,000
Taxes, licenses and fees				14,605
Federal income taxes				9,131
Unearned premiums				268,863
Amounts withheld or retained for the account of others				24,698
Aggregate write-ins for liabilities				<u>500,000</u>
Total Liabilities				<u>\$1,179,116</u>

SURPLUS AND OTHER FUNDS

Common capital stock	\$1,500,000			
Unassigned funds (Note 3)	<u>1,517,145</u>			
Surplus as Regards Policyholders				<u>3,017,145</u>
Total Liabilities, Surplus and Other Funds				<u>\$4,196,261</u>

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART THEREOF.

MUTUAL SAVINGS FIRE INSURANCE COMPANY
Summary of Operations
For the Periods Ended December 31,

	2000	1999	1998	1997
Underwriting income:				
Premiums earned	<u>\$4,318,698</u>	<u>\$4,522,079</u>	<u>\$4,755,099</u>	<u>\$4,730,477</u>
Deductions:				
Losses incurred	\$1,834,625	\$2,018,177	\$3,216,628	\$2,768,300
Loss expenses incurred	133,800	140,778	175,622	173,646
Other underwriting expenses				
Incurred	1,668,869	1,854,888	1,999,633	1,848,606
Aggregate write-ins for underwriting deductions	<u>0</u>	<u>155,000</u>	<u>(175,000)</u>	<u>0</u>
Total underwriting deductions	<u>\$3,637,294</u>	<u>\$4,168,843</u>	<u>\$5,216,883</u>	<u>\$4,790,552</u>
Net underwriting gain (loss)	<u>\$ 681,404</u>	<u>\$ 353,236</u>	<u>\$(461,784)</u>	<u>\$ (60,075)</u>
Investment income:				
Net investment income earned	\$ 264,526	\$ 931,055	\$ 622,272	\$ 267,804
Net realized capital gains (losses)	<u>(5,076)</u>	<u>47,078</u>	<u>0</u>	<u>0</u>
Net investment gain (loss)	<u>\$ 259,450</u>	<u>\$ 978,133</u>	<u>\$ 622,272</u>	<u>\$ 267,804</u>
Other income:				
Aggregate write-ins for miscellaneous income	<u>\$ 0</u>	<u>\$ 100</u>	<u>\$ 2</u>	<u>\$ 112</u>
Total other income	<u>\$ 0</u>	<u>\$ 100</u>	<u>\$ 2</u>	<u>\$ 112</u>
Net income before dividends and taxes	\$ 940,854	\$1,331,469	\$ 160,490	\$ 207,841
Federal income taxes incurred	<u>393,637</u>	<u>69,546</u>	<u>0</u>	<u>65,000</u>
Net income	<u>\$ 547,217</u>	<u>\$1,261,923</u>	<u>\$ 160,490</u>	<u>\$ 142,841</u>

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART THEREOF.

MUTUAL SAVINGS FIRE INSURANCE COMAPNY
CAPITAL AND SURPLUS ACCOUNT
For the Periods Ended December 31,

	2000	1999	1998	1997
Surplus as regards policyholders January 1,	<u>\$3,336,346</u>	<u>\$3,248,642</u>	<u>\$3,411,740</u>	<u>\$3,290,728</u>
Net Income	\$ 547,217	\$1,261,923	\$ 160,490	\$ 142,841
Net unrealized capital gains (losses)		55,102		
Change in non-admitted assets	(16,418)	(229,321)	16,412	(21,829)
Dividends to stockholders	<u>(850,000)</u>	<u>(1,000,000)</u>	<u>(340,000)</u>	<u>0</u>
Change in surplus as regards Policyholders December 31,	<u>\$ (319,201)</u>	<u>\$ 87,704</u>	<u>\$ (163,098)</u>	<u>\$ 121,012</u>
Surplus as regards policyholders December 31,	<u>\$3,017,145</u>	<u>\$3,336,346</u>	<u>\$3,248,642</u>	<u>\$3,411,740</u>

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART THEREOF.

NOTES TO THE FINANCIAL STATEMENTS

Note 1 - Cash and short-term investments

\$ 177,178

The amount of the captioned asset is the same as reported in the Company's 2000 Annual Statement.

According to SSAP No.45 (effective January 1, 2001), relating to repurchase agreements, the Company shall receive as collateral, transferred security having a fair value at least equal to 102% of the purchase price paid by the reporting entity for the securities. At year-end 2000, the price paid by the Company under the repurchase agreement was \$254,215 and the total market value of the collateral was \$254,217. The required amount of collateral should have been \$259,299. Also, the Company did not make a disclosure in the financial statements regarding its policy for requiring collateral or other security on its repurchase agreement.

Note 2 - Premiums and agents' balances in course of collection

\$ 212,393

The captioned amount is the same as reflected by the Company in its 2000 Annual Statement.

Commissions of \$20,277, relating to premiums and agents' balances in course of collection, were netted in the line item, "Receivable from parent, subsidiaries, and affiliates," instead of reporting premiums and agents' balances in course of collection net of commissions as required by the NAIC Annual Statement Instructions.

This reclassification has not been made in this Report of Examination due to the immaterial amount of the error.

Note 3 - Unassigned funds (surplus)

\$1,517,145

The amount of unassigned funds per examination is the same as that reported in the Company's 2000 Annual Statement. Variances determined by the examination were all deemed to be immaterial in amount and no related changes have been made in the financial statements of this report.

CONTINGENT LIABILITIES AND PENDING LITIGATION

The Company had no outstanding litigation as of December 31, 2000. The Company established a liability of \$50,000 for unknown or unreported liabilities, which was included with the amount reported for other expenses on the Annual Statement Balance Sheet.

The Company's President and its Treasurer executed a letter of representation attesting that unreported liabilities and contingencies did not exist as of December 31, 2000.

SUBSEQUENT EVENTS

It was noted that the Company had a consolidated income tax allocation agreement with Mutual Savings Life Insurance Company, but was filing on an individual basis. The income tax allocation agreement was cancelled by the companies involved during the course of the examination.

One of the Company's bonds issued by an Enron subsidiary was written down during the last quarter of 2001 by \$120,000 due to a permanent decline in value. The Company did not disclose the recognition of this impairment loss as required by the NAIC Annual Statement Instructions.

COMPLIANCE WITH PREVIOUS RECOMMENDATIONS

A review was made to determine whether the Company had complied with the recommendations made in the last examination report. The review indicated that the Company did not comply with the previous recommendation to obtain at least the minimum amount of fidelity bonds coverage on its officers and directors in accordance with the NAIC Financial Examiner's Handbook. The recommendation is repeated in this report. The Company was found to be in compliance with all other recommendations resulting from the examination of the Company as of December 31, 1996.

COMMENTS AND RECOMMENDATIONS

Corporate Records – Page 6

It is recommended that the Company's Board of Directors approve investments as required by Section 27-41-5, Code of Alabama 1975, as amended.

Holding Company and Affiliate Matters – Page 6

It is recommended that the Company keep complete and accurate records of the expenditures comprising commissions in accordance with Section 27-29-5, Code of Alabama 1975, as amended.

It is recommended that the Company reflect the relationships of the holding company group to the ultimate controlling person in Schedule Y of its Annual Statements.

Management and Service Agreements – Page 8

It is recommended that the Company submit the service agreement between Mutual Savings Fire Insurance Company and Mutual Savings Life Insurance Company for approval as required by Section 27-29-5, Code of Alabama 1975, as amended.

It is recommended that the Company disclose all affiliated management and service agreements and the related fees in Form B filings as required by Section 27-29-4, Code of Alabama, as amended.

It is noted that the Company did not maintain supporting cost analysis or time studies demonstrating that the fees paid to its parent were fair and reasonable.

It is recommended that the Company operate in accordance with the terms of the agreement by requiring monthly invoices from Primesco, paying the required fees thirty days after receipt of the invoices, and requiring written notices regarding waivers.

Dividends to stockholders – Page 10

It is recommended that the Company not pay dividends to stockholders without giving the Alabama Department of Insurance ten days prior notice as required by Section 27-29-5 (g)(2), Code of Alabama 1975, as amended.

Fidelity Bonds – Page 11

It is recommended that the Company obtain at least the minimum amount of fidelity coverage for protection against dishonest or fraudulent acts of the Company's employees in accordance with the NAIC Financial Examiners Handbook.

Reinsurance – Page 14

It is recommended that the Company complete Schedule F - Part 3 in accordance with the NAIC Annual Statement Instructions by including all Lloyd's syndicates individually and accurately listing and classifying all reinsurers.

Cash and short-term investments – Page 20

It is recommended that the Company comply with the requirements of SSAP No. 45 regarding repurchase agreements and related transactions on all statutory financial statements issued after January 1, 2001.

Premiums and agents' balances in course of collection – Page 20

It is recommended that the Company report Premiums and agents balances' in course of collection net of commissions as required by the NAIC Annual Statement Instructions.

Subsequent Events – Page 21

It is recommended that the Company make disclosures, as required by the NAIC Annual Statement Instructions, regarding the recognition of impairment losses on assets.

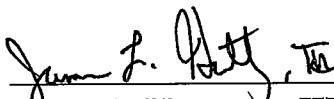
CONCLUSION

Acknowledgment is hereby made of the courteous cooperation extended by the officers of the Company and the employees of Mutual Savings Life Insurance Company during the course of the examination.

The customary insurance examination procedures, as recommended by the National Association of Insurance Commissioners, have been followed to the extent appropriate in connection with the verification and valuation of assets and the determination of liabilities set forth in this report.

In addition to the undersigned, W. O. Myrick, CFE, Mary B. Packard, CFE, and F. Blase Abreo, Rhonda B. Ball, Tisha R. Freeman, and Palmer W. Nelson, examiners, and David M. Shepherd, FCAS, MAAA, consulting actuary, all representing the Alabama Department of Insurance, participated in the examination of Mutual Savings Fire Insurance Company.

Respectfully submitted,


James L. Hattaway, III, CFE
Examiner-in-Charge
Department of Insurance
State of Alabama
Southeastern Zone, NAIC